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Approved For Release 2007/03/06 : CIA-RDP79T00975A030200010109-5

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National Intelligence Daily Cable for 6 August 1977, Saturday

The NID Cable is for the purpose of informing senior US officials.

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State Dept. review completed

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RHODESIA: Situation Report



[redacted] On the Rhodesian political scene, Smith is running unopposed in the election. The opposition Rhodesian Action Party, which was established in early July by 12 members of parliament who defected from Smith's Rhodesian Front Party, is contesting 46 of the remaining 49 white seats in the assembly. The National Unifying Force, a coalition of small liberal parties, is contesting 16. Only three of the eight black seats open to direct election are being contested.

[redacted] The opposition party is attempting to convince voters that Smith is too weak to produce a settlement and that quick, decisive action--including military action--is needed to resolve the present impasse. Most Rhodesian whites, however, apparently want to avoid a broadening of the war. The opposition will seize on any significant effort by the guerrillas to disrupt the election as justifying ruthless persecution of the war in hopes of causing a substantial swing in votes in its favor.

[redacted] It is too early to predict the outcome of the election; Smith needs a two-thirds majority in the assembly to win approval for any settlement proposals. [redacted]

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ETHIOPIA: Mengistu on US Relations

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[REDACTED] //Chairman Mengistu of Ethiopia's ruling military council called in the US charge on Thursday for a long discussion on US-Ethiopian relations, including his displeasure over the US decision to supply arms to Somalia. He made his points in a more restrained manner than in previous discussions and expressed a desire to improve bilateral relations.//

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[REDACTED] //Mengistu referred to the close economic and defense cooperation between the US and the previous Ethiopian government. He complained that the US had not taken foreign threats to Ethiopia's security seriously, held up arms deliveries, misunderstood Ethiopia's revolution, and now is providing moral and material support to a country that is committing aggression against Ethiopia.//

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[REDACTED] //No longer able to rely on the US for arms, Mengistu claimed that Ethiopia was forced to seek assistance elsewhere, but he said this did not mean that Ethiopia was anybody's puppet.//

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[REDACTED] //The Ethiopian leader made no new demands during the meeting, and voiced his intention to improve bilateral relations, even suggesting he might soon appoint an ambassador to Washington. He asked the US charge to convey to President Carter his appreciation for the President's expressed desire to improve relations. As an indication that the door is open for further dialogue, Ethiopian media have omitted charges against the US--including criticism of the arms supply decision to Somalia--for the past several days. [REDACTED]

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COLOMBIA: Narcotics

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[] A US delegation met with Colombian President Lopez in Bogota last month to discuss the problem of narcotics-related corruption among Colombian government officials. The meeting--which was preceded by a series of discussions, briefings, and media coverage of drug trafficking in Colombia--is another stage in joint US-Colombian drug control efforts. Political constraints, however, probably will limit Lopez' effectiveness in dealing with the drug problem.

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[] Lopez, who is deeply concerned about the narcotics problem, was receptive to an offer by President Carter to provide evidence on corruption among Colombian officials charged with enforcing narcotics regulations. He was very candid during the meeting. After hearing information implicating various high-level officials in the judiciary, the military, and law-enforcement agencies, Lopez said he planned to set up an elite civilian law-enforcement unit to cope with crime and corruption.

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[] Lopez outlined some of his plans for reforming Colombia's judicial system. He explained that he had in mind adopting US procedures in which attorneys, rather than judges, investigate and prosecute cases. Lopez also pledged that the

drug problem would have priority during his final year in office, and he said he is considering stationing a narcotics liaison officer in Miami to work with the US Drug Enforcement Administration.

25X1 [] Lopez' commitment to improve narcotics enforcement may facilitate certain bilateral drug-control efforts, but a direct assault on the problem of corruption, particularly at higher levels, is unlikely. Lopez has just weathered a serious scandal that threatened his political position, and he may be reluctant to risk another public outcry by focusing attention on corrupt officials.

25X1 [] Lopez' ability to address the drug issue is further circumscribed by his prospective "lame duck" status after the primary election slated for next February. As his authority diminishes, he may not be able to pursue many of his plans on narcotics control. Even in mid-term, when his political strength was presumably at its peak, Lopez seemed unable to deal effectively with a number of pressing problems.

25X1 [] The problem of corruption, perhaps the main impediment to efforts to resolve Colombia's other ills, is not likely to be seriously addressed, much less solved, during Lopez' final months in office. At best, Lopez may be able to set some machinery in motion that will be continued by his successor.

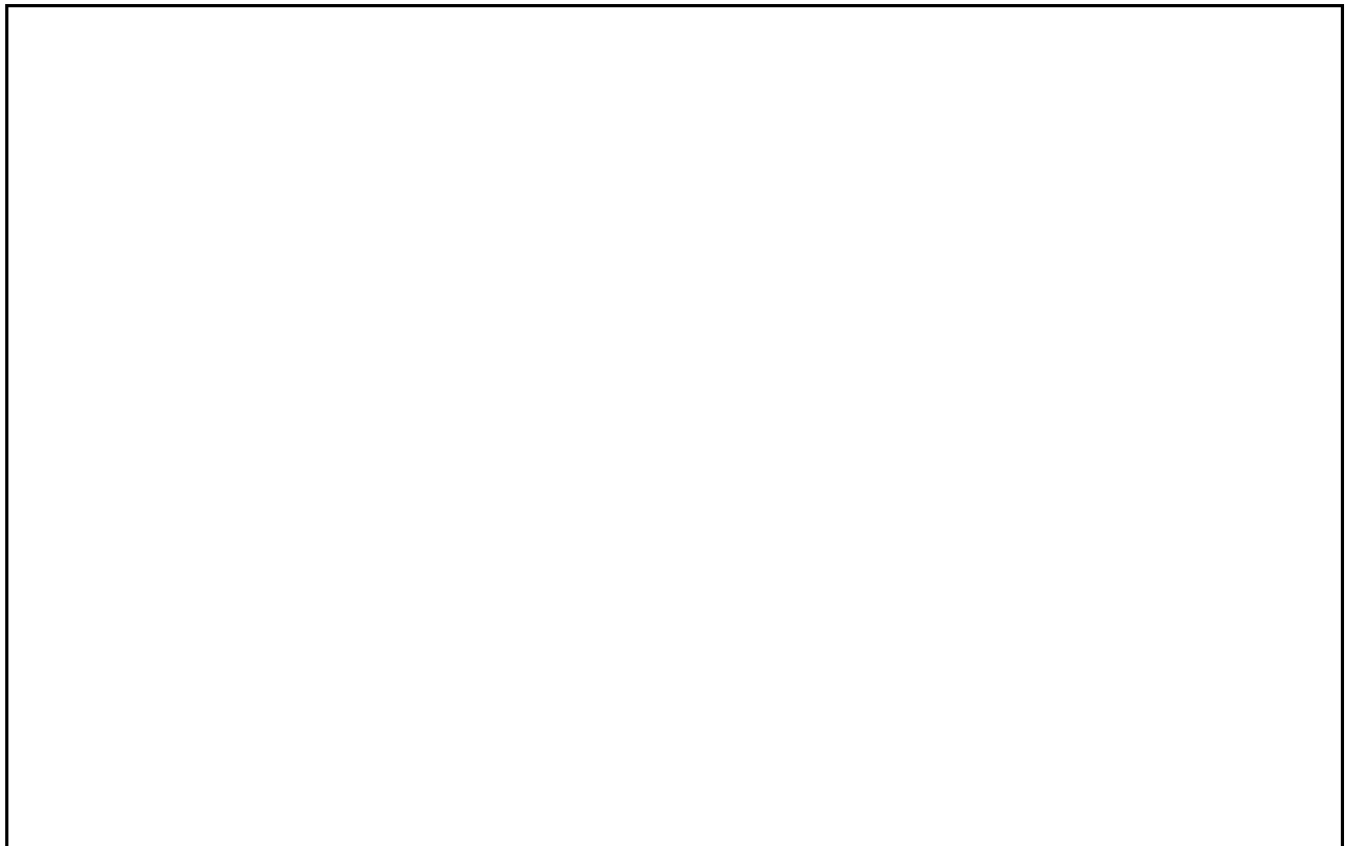
25X1 ICELAND-US: NATO Base

25X1 [] Iceland is stepping up its campaign to obtain compensation for the US-manned NATO base at Keflavik. Icelandic Foreign Affairs Undersecretary Helgason recently told a US official that six of eight cabinet members now favor pressing the US for a cash contribution to cover its use of the Keflavik facility.

25X1 [] //Prime Minister Hallgrimsson could be under growing pressure from both his cabinet and party to adopt a harder line on base policy in anticipation of the election next year. The timing of Helgason's comments, however, suggests that Iceland is staking out its bargaining position well in advance of meetings with the US, which are scheduled later this year.//

25X1 [] The recent US rejection of an Icelandic request for financial assistance to construct a civilian air terminal at Keflavik reportedly has made it more difficult for Hallgrimsson to resist demands for US payments. Funding for the air terminal and further separation of civilian and military facilities on the base will be major issues when Foreign Minister Agustsson comes to the US in September.

25X1 [] //The US base at Keflavik has been the only significant foreign policy issue in Iceland since the "Cod War" with the UK. Most Icelanders favor retaining the facility, but they do not agree on what the terms of continued US and NATO presence should be. With Iceland's economic problems mounting, demands for heavier US participation in base improvements and other financial assistance have gained popularity.// []



JAPAN: Defense White Paper

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[] //Japan's latest Defense White Paper issued on July 29 reflects Japan's concern with the growing Soviet air and naval threat. It provides a preview of the government's priorities for defense spending for next year.//

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[] //The report notes that Soviet military power has expanded over the past decade, and it specifically refers to the threat posed by Soviet submarines. The paper predictably reiterates Japan's interest in maintaining stability on the Korean peninsula and acknowledges Japan's support for US plans to withdraw its ground forces from South Korea.//

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[] //The paper outlines the Defense Agency's fiscal year 1978 budget requests, which will be debated this fall. Military planners recommend the long-postponed acquisition of an antisubmarine patrol aircraft, presumably the Lockheed P-3C, and the purchase of the first group of F-15 interceptors.//

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[] //The penetration of Japan's air defenses by a Soviet MIG-25 last September is cited to underscore the need to improve Japan's early warning capability, both the paper does not recommend procurement of an airborne early warning system this year. Defense expenditures during 1978 are to remain at approximately the same percentage of GNP as this year. []

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CHINA: Industrial Revival Falls Short of Expectations

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[] During the first half of 1977, China's industry has made a respectable recovery from last year's poor performance but has fallen short of Peking's expectations. A critical factor in achieving a more rapid recovery will be the ability of the central government to restore worker discipline and elicit greater effort from its labor force. Teng Hsiao-ping's return to power may help accomplish this task; he is regarded as a strong administrator who advocates programs favorable to the workers. Unless the central government makes good its promise to increase wages, however, Chinese labor is likely to be only temporarily pacified by Teng's return.

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[] Earlier this year, the Chinese media released a torrent of statistics suggesting a rapid revival of industry, particularly in those provinces and cities hard hit by the political turmoil of last year. Mid-year reports, however, have been scant and notably lacking in statistics. The latest round-up merely noted that industrial production from January through June was "above" the same period in 1976.

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[] //Peking for the most part has relied on inter-provincial and inter-enterprise emulation campaigns and on strong negative measures such as severe sanctions against absenteeism to promote economic recovery. []

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[REDACTED] It is perhaps more than a coincidence that the announcement of Teng's return to power occurs at a time when Peking has apparently decided to try a more positive approach toward labor. China's leaders seem to have recognized the need for a strong administrator to bring greater unity and a more forceful approach to solving the problems of the economy.

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[REDACTED] By itself, Teng's return is likely to pacify labor only temporarily. The central government, however, will be compelled to follow through on its promise to increase wages. [REDACTED]

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CANADA: Possible Increase in Gas Exports

[redacted] //The Canadian National Energy Board will consider favorably requests by domestic producers to increase gas exports to the US. This position is contained in the NEB report issued last month that supported the construction of the Alcan pipeline. It is a reversal of the Board's previous stand and reflects the much improved prospect for gas supplies in Alberta.//

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[redacted] //The NEB envisions two ways to take advantage of Alberta's current gas surplus. The first option calls for gas exports to be increased over the next several years but offset against shipments scheduled after 1984 under existing long-term contracts.//

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[redacted] //The NEB sees several advantages in this option. US customers would receive Canadian gas at a critical time, before Alaskan North Slope gas reaches the domestic market. The additional exports would earn revenue for Canadian producers and induce new exploration and development. Canadian consumers would benefit because of reduced export commitments after 1984, when the Board forecasts a domestic shortfall.//

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25X1 [] //The second option is basically a "loan" arrangement. It involves increasing exports now on the understanding that the gas would be repaid with Alaskan gas at a later date.//

25X1 [] //The NEB, however, notes an obstacle to boosting exports--the lack of pipeline capacity. Addressing this problem, it suggests building new pipelines in Alberta and Saskatchewan to connect with a future pipeline moving Alaskan and Mackenzie Delta gas south.//

25X1 [] //The NEB's willingness to consider export increases reflects the sharply improved gas supply picture in Alberta, the leading gas-producing province. The surplus has emerged during the last two years because of increased drilling and slower-than-anticipated growth in domestic demand. Higher domestic and export gas prices and improved return to producers prompted the sharp rise in gas drilling.//

25X1 [] //All interested parties--the NEB, Ottawa, gas firms, and Alberta officials--agree there is a gas surplus, but its size is a matter of debate. Provincial officials have an optimistic view largely because they are being pressed by producers, many of them independent, to find market outlets for new supplies. The NEB, however, takes a conservative view. It estimates the surplus at about 420 billion cubic feet annually this year and next, declining to 300 billion cubic feet annually in 1979 and 1980, and disappearing by 1985.//

25X1 [] //An increase in gas exports would reverse the decline in shipments of the last few years. After peaking in 1973 at 1 trillion cubic feet, exports fell to 959 billion cubic feet in 1974 and stabilized at 950 billion cubic feet in 1975 and 1976. The drop reflected production problems in the British Columbia gas fields that supply the US Pacific Northwest. This year, exports will probably increase, perhaps to 980 billion cubic feet, because of emergency exports early in the year to meet abnormal demand caused by the severe winter in the US.//

25X1 [] //As yet Ottawa has not indicated that it will support the NEB's recommendation on exports. Energy Minister Gillespie recently suggested that it might be premature to speculate on a boost in exports before the matter is discussed by the government as part of the debate on an Arctic gas pipeline.//

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[] //Cabinet deliberations on whether and how to offer pipeline negotiations to the US will start today and are expected to result in a decision by Monday after preliminary consultations with the US.//

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[] //Several companies, however, are already reacting to the NEB's suggestion. Northwest Energy, a US pipeline company and a participant in the Alcan consortium, has signed a five-year contract with Pan-Alberta Gas for part of the surplus with deliveries beginning in 1979. Pan-Alberta also wants to extend the domestic pipeline system, which ends at Montreal, eastward to supply the Maritime provinces and perhaps the north-eastern US.//

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[] //Trans-Canada Pipelines Ltd., which now transports Alberta gas to consumers in eastern Canada and the US, is moving ahead with plans to increase exports to the US if Ottawa gives the go-ahead.//

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[] //Ottawa stands to gain in several areas if it goes along with the NEB recommendation. Approval would improve relations between the federal government and Alberta and could open the way for further cooperation on other energy matters. Ottawa would have more time in deciding when and how to tap Mackenzie Delta reserves for domestic markets, and an increase in gas shipments would help Canada's overall export picture.//

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[] //A favorable decision by Ottawa may also win the government of Prime Minister Trudeau some political points in Alberta. With national elections scheduled within the next two years, the Trudeau government is well aware that it has little political strength in Alberta and other western provinces.

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INTERNATIONAL: Sugar Conference

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[] *The UN Sugar Conference will reconvene in September as the result of last week's meeting in London of 20 leading sugar importing and exporting countries. Chances for reaching a new sugar agreement now appear much improved, although several major issues remain to be negotiated.*

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[] The London talks led to agreement in principle on sugar stocks and stock financing, the major stumbling blocks in earlier negotiations. Exporters have agreed to accept reserve stocks of at least 2.5 million tons with the exact level still to be decided.

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[] Despite the progress achieved at the meeting, the issues of minimum prices, special trade arrangements, quota allocation among exporters, and access to developed country markets remain to be resolved. Based on last week's consensus, minimum sugar prices in a new agreement probably will be 10 to 13 cents per pound; the current world price is about 8 cents a pound.

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[] The trade arrangement issue may prove to be the most difficult. It centers largely on Cuba's exports to other communist countries, an issue on which Havana has previously been uncooperative. Cuba exports sugar to the USSR, Eastern Europe, and China under a mixture of barter and hard-currency arrangements, and these countries are generally free to re-export the sugar on world markets. The Cuban position on other matters at the London talks, however, was surprisingly constructive.

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[] Sugar exporters probably are anxious to reach an agreement because of the current low sugar prices and because Congress is considering a bill that could impose restrictions on sugar imports if a satisfactory agreement is not concluded.

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BRIEFS

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